

UARM Supplemental Plan
3 APR 1985

Comments on: Federal Employees Retirement System Act of 1985
(OPM Supplemental Plan)

Basic Provisions

This Plan is essentially a defined contribution plan with the basis for benefits being an accumulation of principle and interest on 11.6% of salary contributed by the Government. The employee contributes nothing. While the employee is vested after one year of service, retirement benefits cannot be drawn until age 59 1/2 (age 50 for law enforcement officers, fire fighters, and air traffic controllers). Benefits may, at the election of the employee, be in the form of a lump sum, or a fixed term or life annuity. The latter may be opted for either with or without COLA, however, the basic annuity is less when the COLA option is selected.

This Plan provides disability benefits roughly comparable to those of the current retirement systems except that they do not begin until six months after cessation of work. Survivor benefits are significantly less generous. For instance, the surviving spouse of a deceased employee would be entitled to either a lump sum payment or an annuity based on the greater of the balance in the deceased employees Retirement Fund account or one year's wages. The surviving spouse could, however, be eligible for Social Security benefits over and above this amount.

This Plan also provides for a "Federal Employees' Savings Plan" which permits employees to voluntarily put up to \$5,000 per year into the Retirement Fund. No Government contribution or matching funds are provided for. Such voluntary contributions would be treated the same as Individual Retirement Accounts (IRA's) for withdrawal and tax purposes (i.e., no withdrawal until age 59 1/2; deferral of tax on interest until withdrawal; contributions excluded from gross income for tax purposes). This provision is essentially a liberalizing of the amount one can put into an IRA and obviously of no real assistance to lower grade employees. This feature has not been approved by the Internal Revenue Service (IRS) and may meet some opposition from IRS.

This Plan also provides for early retirement of law enforcement officers, fire fighters, and air traffic controllers. These special category employees are permitted to begin drawing benefits from the Retirement Fund at age 50 after 20 years of such special service and the plan further provides that they will receive a supplemental payment the equivalent of Social Security benefits from the date of their retirement until they actually become eligible for Social Security benefits. CIA employees are not included in this special provision of the Plan nor is there any special provision for "discontinued service" cases.

This Plan deals strictly with the providing of retirement benefits and does not address the utility of a retirement system as a management tool to tailor the work force. As such it is

counter to the best interests of this Agency. It would result in employees being forced to retire at older ages.

Comments

The projections for a defined contribution plan produce impressive balances over a full career. However, it is important to keep these in the perspective of inflation. According to our consultant, general economic theory is that investment return will be about 2% higher than inflation over the long run. Therefore, expected earnings of, for instance 9%, must be discounted by at least 7% a year to reveal the real dollar value of the accumulated balances.

Projected funds of a million dollars or more with annual returns of \$100,000 appear very comfortable. However, if the retiree faces a price tag of \$100,000 for a new car and has to pay \$10 for a quart of milk, and \$4 for a daily newspaper, the income takes on new perspective.

A retirement program based strictly on a defined contribution pension plan would have devastating impact on the Agency's ability to maintain an effective work force.

The attached tables provided by Ed Hustead of Hay Associates (converted to current dollar equivalents) compare benefits under current CIARDS and CSRS with benefits received from a defined contribution plan where 14% (OPM's plan calls for 11.6%) of salary was invested over a career. In all cases, even if a supplement

equal to Social Security is provided at the time of retirement, the annuity levels are less than under existing systems. The levels are significantly less if retirement is before age 62. (Hustead is providing data on OPM's proposal, but it is not currently available due to prior commitments on his part in dealing with the current Congressional studies.)

Such a plan would not support the early retirement requirements of this Agency and employees would have to work much longer to acquire sufficient annuity levels. Conversely, similar to the Stevens' proposal, the turnover of younger employees would be significantly increased by the portability aspects of such a plan and the DCI's management flexibility severely hampered in maintaining a quality work force.

Employee entering the CIARDS in 1985

Retiring at Age 60 with 30 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$7,688	\$10,578	\$18,428	\$20,715
Pension plan	\$0	\$0	\$0	\$0
Social security	\$5,243	\$5,659	\$6,225	\$6,225
Total benefit from plan:				
At retirement	\$7,688	\$10,578	\$18,428	\$20,715
At age 62	\$12,351	\$15,440	\$23,263	\$25,378
At age 80	\$8,752	\$10,487	\$14,635	\$15,679
Benefit from current system	\$15,182	\$19,201	\$36,701	\$39,118

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CSRS in 1985

Retiring at Age 55 with 30 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$7,092	\$9,758	\$17,000	\$19,110
Pension plan	\$0	\$0	\$0	\$0
Social security at 62	\$4,894	\$5,282	\$5,810	\$5,810
Total benefit from plan:				
At retirement	\$7,092	\$9,758	\$17,000	\$19,110
At age 62	\$10,283	\$12,697	\$18,728	\$20,332
At age 80	\$7,554	\$8,943	\$12,187	\$12,978
Benefit from current system	\$14,233	\$18,001	\$34,407	\$36,673

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CSRS in 1985

Retiring at Age 65 with 40 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$28,342	\$34,299	\$67,939	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$11,523	\$15,336	\$27,665	\$30,223
Pension plan	\$0	\$0	\$0	\$0
Social security	\$7,151	\$8,057	\$8,613	\$8,613
Total benefit from plan:				
At retirement	\$18,674	\$23,393	\$36,278	\$38,836
At age 80	\$13,549	\$16,573	\$23,974	\$25,395
Benefit from current system	\$20,509	\$24,819	\$49,162	\$49,712

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CSRS in 1985
Retiring at Age 62 with 20 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$23,983	\$30,780	\$59,230	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$4,437	\$6,445	\$10,571	\$11,138
Pension plan	\$0	\$0	\$0	\$0
Social security	\$3,238	\$3,694	\$4,455	\$4,455
Total benefit from plan:				
At retirement	\$7,675	\$10,138	\$15,026	\$15,593
At age 80	\$5,428	\$6,875	\$9,673	\$9,953
Benefit from current system	\$8,172	\$10,589	\$19,989	\$23,634

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CIARDS in 1985
Retiring at Age 55 with 30 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$7,092	\$9,758	\$17,000	\$19,110
Pension plan	\$0	\$0	\$0	\$0
Social security	\$4,894	\$5,282	\$5,810	\$5,810
Total benefit from plan:				
At retirement	\$7,092	\$9,758	\$17,000	\$19,110
At age 62	\$10,283	\$12,697	\$18,728	\$20,332
At age 80	\$7,554	\$8,943	\$12,187	\$12,978
Benefit from current system	\$15,182	\$19,201	\$36,701	\$39,118

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.

Employee entering the CIARDS in 1985
Retiring at Age 50 with 25 Years of Service

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$25,436	\$32,539	\$62,714	\$68,700
Fourteen percent contribution plan:				
Capital accumulation plan	\$5,112	\$7,187	\$12,236	\$13,127
Pension plan	\$0	\$0	\$0	\$0
Social security	\$3,917	\$4,328	\$4,990	\$4,990
Total benefit from plan:				
At retirement	\$5,112	\$7,187	\$12,236	\$13,127
At age 62	\$7,110	\$8,817	\$12,632	\$13,189
At age 80	\$5,493	\$6,544	\$8,762	\$9,037
Benefit from current system	\$12,069	\$15,310	\$29,225	\$32,598

Note: Benefits are shown for an employee who participated in the capital accumulation plan in full throughout the career.